

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6862

BILL NUMBER: SB 346

NOTE PREPARED: Jan 23, 2006

BILL AMENDED:

SUBJECT: PERF COLA and 13th Check.

FIRST AUTHOR: Sen. Meeks

BILL STATUS: 2nd Reading - 1st House

FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill provides for a 2% cost-of-living adjustment (COLA) for a retired member of the Public Employees' Retirement Fund (PERF) (or a survivor or beneficiary of a member). It also provides for a thirteenth check based on the complete years of service credited to a member at retirement.

Effective Date: July 1, 2006.

Explanation of State Expenditures: [Note: All estimates for the state impact include, in addition to the cost associated with PERF members, the cost of increases associated with the Excise Police and Conservation Officers' Retirement Plan and the Legislators' Defined Benefit Plan, which are statutorily linked to any COLA increases provided to PERF recipients. The portion of the liability and costs associated with the two smaller retirement plans is very small compared to the PERF impact.]

Summary of State Fiscal Impact for PERF COLA: The bill provides a 2.0% COLA for members, survivors, and beneficiaries of PERF payable after December 31, 2006. The minimum increase would be \$5.00 monthly.

Current statute has no provision for a COLA in 2007. Consequently, the fiscal impact of the 2007 adjustment provided in this bill, over what is in current statute, is estimated to result in an additional unfunded accrued liability of \$27.195 M. This represents an additional annual funding requirement of about \$2.124 M (about \$1.062 M for FY 2007 and \$2.124 M in fiscal years thereafter, representing approximately a 0.131% increase in annual funding as a percent of payroll).

Summary of State Budget Impact for PERF COLA: Although a COLA for 2007 is not provided in current statute, PERF is currently calculating the contribution requirement for the state *in anticipation of passage* of

a 1% COLA for CY 2007. Consequently, the budgetary impact from the 2007 adjustment provided in this bill under the COLA assumptions used in the actuarial calculations is estimated to result in an additional unfunded accrued liability of 14.312 M. This represents an additional cost of about \$0.566 M in FY 2007, and \$1.132 M in years thereafter, representing approximately 0.068% of payroll.

Summary of Fiscal Impact of 13th Check Provision: This bill also provides for a 13th check to be paid on or before December 1, 2006, to any member (or survivor or beneficiary) who retired before January 1, 2006, and was entitled to receive a monthly benefit on November 1, 2006. The amount shall be equal to \$50 if the retired member had at least ten years of service, plus an additional \$50 for each additional five years of service, to a maximum of \$250. This benefit is payable only to PERF members and does not become part of the base for pension calculations.

The estimated increase in unfunded accrued liability for FY 2007 is \$4.2 M due to the 13th check provision. The increase in annual funding required is \$325,000, representing 0.020% of payroll. This impact is in addition to the state fiscal impact for the COLA described above and is paid from general assets of the pension fund.

All estimates are based on the July 1, 2005, actuarial valuations. The state General Fund contributes about 55% and various dedicated funds contribute approximately 45% of the personal services expenditures of the state budget.

Explanation of State Revenues:

Explanation of Local Expenditures: *Summary of Local Fiscal Impact of PERF COLA:* The bill provides a 2.0% COLA for members, survivors, and beneficiaries of PERF payable after December 31, 2006. The minimum increase would be \$5.00 monthly. Current statute has no provision for a COLA in CY 2007. Consequently, the fiscal impact of the 2007 adjustment provided in this bill, over what is in current statute, is estimated to result in an additional unfunded accrued liability of \$33.166 M. This would result in an additional annual funding requirement of about \$2.522 M in CY 2007 and years thereafter (representing approximately 0.099% of payroll) over what is provided for in current statute.

Summary of Local Budget Impact of PERF COLA: Although a COLA for 2007 is not provided in current statute, future PERF funding requirements are currently calculated *in anticipation of passage* of a 1% COLA for CY 2007. Consequently, the budgetary impact from the 2007 adjustment provided in this bill under the COLA assumptions used in the actuarial calculations is estimated to result in an additional unfunded accrued liability of \$17.3 M. This represents an additional cost of \$1.3 M in CY 2007 and years thereafter (representing approximately 0.052% of payroll).

The 13th Check provision results in an estimated increase in unfunded accrued liability for CY 2007 of \$5.2 M. The increase in annual funding required is \$400,000, representing 0.016% of payroll. This impact is in addition to the fiscal impact to local units for the COLA described above. (See *Explanation of State Expenditures* for details on the 13th Check provision.)

Explanation of Local Revenues:

State Agencies Affected: All; Public Employees' Retirement Fund.

Local Agencies Affected: Those municipalities with members in the Public Employees' Retirement Fund.

Information Sources: Doug Todd of McCready & Keane, Inc., actuaries for PERF, 317-576-1508.

Fiscal Analyst: James Sperlik, 317-232-9866.

DEFINITIONS

Cost-of-Living Adjustment - An across-the-board increase (or decrease) in wages or pension benefits according to the rise (or fall) in the cost of living as measured by some index, often the Consumer Price Index (CPI).

Funding - A systematic program under which assets are set aside in amounts and at times approximately coincident with the accruing of benefit rights under a retirement system.

13th Check - A 13th check is an annual supplemental retirement allowance arising from earnings on the investments of a system in excess of those determined as needed for other purposes. Unlike a cost-of-living adjustment, the amount of this supplemental retirement allowance does not increase the pension base.

Unfunded Actuarial Liability -The actuarial liability, sometimes called the unfunded liability, of a retirement system at any time is the excess of its actuarial liability at that time over the value of its cash and investments.